Press Release
INDUCTO STEEL LIMITED
September 21, 2023
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BBB- | Negative | Reaffirmed | Stable to Negative	-
Bank Loan Ratings	55.00	-	ACUITE A3 | Assigned
Bank Loan Ratings	25.00	-	ACUITE A3 | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs. 20.00 Cr. bank facilities and its short-term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs. 25.00 Cr bank facilities of Inducto Steels Limited (ISL).

Further, Acuité has assigned its short-term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs. 55.00 cr. bank facilities of ISL.

The Outlook has been revised from **'Stable' to 'Negative'.**

Rationale for reaffirmation and revision in outlook
The revision in outlook is majorly on account of the group's deteriorating operating performance reflected by decline in revenues and profitability during FY2023 owing to lesser price realisations. The revenues of the group stood at Rs. 379 Cr. in FY2023 (Provisional.) against Rs. 414 Cr. in FY2022. Further, the lesser price realisations have impacted the EBITDA margin of the group which declined from 4.06 percent in FY2022 to 0.28 percent in FY2023. The deterioration in profitability also impacted the leverage ratios of the group marked by increase in Debt/EBITDA to 4.60 times for FY2023 (Provisional) against 0.44 times in FY2022. Also, during Q1FY2024 the operating margins have remained subdued. Further, the group has reported losses to the tune of Rs. 3.25 Cr. in one of its companies, HSDPL which has affected the group's overall operating performance. The rating also remains constrained to fluctuations in the forex rates and group's significant exposure into the real estate segment. However, the rating continues to draw comfort from extensive experience of the management and group's established market position. Acuite believes timely retirement of its LCs will remain key monitorable.

About Company
Incorporated in 1988, Inducto Steel Limited (ISL) is public limited company listed at BSE and engaged in in ship breaking business in the Alang-Sosiya belt of Bhavnagar region of Gujarat with plot size of 2385 square meters having frontage of 45 meters. Company's operations are carried out at premises leased out by Gujarat Maritime Board (GMB) in Bhavnagar. Apart from ship breaking business ISL also engaged in steel trading activities.

About the Group

Hariyana Group is promoted by Mr. Shantisarup Raniwal and primarily engaged in ship breaking and steel trading business. Besides, the group is also engaged in the real estate segment by undertaking real estate development projects in partnership firms and JVs as well as investment in real estate firms. The ship breaking activity for all the group companies is carried out at Alang-Sosiya Coastline in Gujarat. The group has its registered office at Nariman Point Mumbai. The group undertakes its ship breaking activity through thre companies; viz; Inducto Steel Limited, Hariyana Ship Breakers Limited, and Hariyana Ship Demolition Private Limited. Its fourth company, Hariyana International Private Limited is involved into trading of metals.

Analytical Approach

Extent of Consolidation

• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

To arrive at the rating, Acuité has consolidated business and financial risk profiles of Hariyana International Private Limited (HIPL), Inducto Steel Limited (ISL), Hariyana Ship Breakers Limited (HSBL) and Hariyana Ship Demolition Private Limited (HSDPL) hereinafter referred to as Hariyana Group (HG). The consolidation is because of similarity in the line of business, common management, along with operational and financial linkages.

Key Rating Drivers

Strengths

Established presence of promoters in ship recycling industry

HG has established business presence of around three decades in the ship-breaking business and the promoter holds more than three decades of experience in the said business line. The business model entails acquiring old ships, dismantling them and recovering the investment through sale of scrap and parts. The long presence of the management in the industry has resulted in establishing healthy relationship with its customers. The promoters are well versed with price dynamics of ship breaking industry and have developed healthy relations with various ship aggregators, which helps in buying ships at competitive rates depending on the market scenario. The company has RINA certification, guidelines for safe and environmentally sound ship recycling. These green recycling companies are preferred over non-RINA certified companies. Further, HG enjoys location advantage as its operations are conducted at Alang (Gujarat), which is the world's largest ship breaking yard ensuring easy availability of ship, human resource and infrastructure. For, real estate activities, the group has entered into partnership with reputed players and have completed various real estate projects in partnership firms mainly in Bengaluru city.
Acuité believes that the group will continue to benefit from its experienced management and long track record of operation in the ship demolition industry.

Moderate financial risk profile

HG's financial risk profile is moderate marked by low gearing, and comfortable debt coverage indicators. Since the company is involved into ship breaking activity the requirement for long term funds is minimal. The total debt during FY2023 of Rs. 58.27 Cr. comprises of Rs. 0.38 Cr long term loans, Rs. 12.56Cr. of unsecured loans extended by promoters and Rs. 45.42 Cr. against the working capital facilities. The gearing stood comfortable at 0.21 times as on March 31, 2023 (Provisional) against 0.04 times as on March 31, 2022. Further, the debt protection metrics have stood moderate with interest coverage ratio and DSCR at 2.29 times for FY2023 (Provisional) against 4.19 times in FY2022 and 1.75 times during FY2023(Provisional) and 1.91 times in FY2022. However, HG relies on non-fund-based bank facilities like Letter of Credit (LC) in order to undertake its business activitites and has around Rs. 100 Cr of LCs due in October 23. Timely retirement of the LCs will remain critical towards the business.

Weaknesses

Deterioration in operating performance with profitability remains susceptible

towards volatility in forex rates and steel prices
HG purchases ship ranging from 10,000 MT to 60,000 MT which takes around six to twelve months for dismantling. During the dismantling period the inventory buildup is significantly high. The prices of the steel are fluctuating and any adverse movement in the prices impacts HG's profitability margin. During FY2023, the revenues deteriortaed at Rs. 379 Cr. against Rs. 414 Cr. in FY2022 due to lesser price realisations. The average realisation price stood at Rs. 42500/MT in FY2023 against Rs. 58800/MT in FY2022. This has also impacted the group's overall operating margins which stood at 0.28 percent in FY2023 (Provisional.) against 4.06 percent in FY2022. The vessel purchase transaction is typically denominated in USD and is generally backed by 90-360 days of letter of credit. Moreover, the scrap sales are typically in the domestic market with realizations being denominated in the Indian Rupee. Consequently, HG remains exposed to any adverse movement in foreign currency exchange rate. Any upward revision in the dollar-rupee exchange rate increases the purchase cost of the vessels. Though the group uses forwards to hedge its forex risk, the cover is taken based on management's expectations on forex movement over a longer duration of LC ranging from 90 to 360 days. Further, the group is also exposed to environmental and regulatory risk as the ship-scrapping industry attracts considerable attention on the issues relating to environmental pollution, health problems of the laborers and violation of human rights.

Significant exposure to real estate segment
HG has significant exposure in the real estate business through investments in various partnership firms. The group has invested around Rs. 256 Cr. into the real estate segemnt through its Partnership firms. The slowdown in the real estate segment possesses significant risk to HG towards recovery of the investment. Acuité believes that any further increase in the real estate exposure may impact group's credit risk profile.

Rating Sensitivities

- Increase in scale of operations along with improvement in the operating profitability
- Any significant increase in exposure towards real estate segment
- Timely retirement of the LCs.

All Covenants
None

Liquidity Position
Adequate
The group has adequate liquidity considering that it does not have any major long term borrowings and any significant immediate repayments to be serviced. The net cash accruals stood at Rs. 4.39 Cr. against obligations of around Rs. 0.15 Cr. during FY2023 (Provisional.). However, the group largely relies on LC borrowings and around Rs. 100 Cr. of LCs stand due in October-23. The group as on June-23 has collections due to the tune of Rs. 20 Cr. along with unsold inventories of around Rs. 86 Cr. Further, the cash & cash equivalents as on June 2023 are around Rs. 22 Cr. Further, the group also has unutilised cash credit limits as the average utilization of bank limits has been low at around ~10 per cent in the last twelve months ending June, 2023. Going forward, the group is expecting improvement in the steel prices in the near term and basis of that Acuite is expecting some improvement in the operating performance of HG. The cash accruals of the company are estimated to remain in the range of around Rs.11 Cr to Rs.13 Cr during FY2024-25 against CPLTD of around Rs. 0.10-0.12 Cr. The current ratio stood at 1.06 times as on 31 March 2023(Prov.) against 1.28 times as on March 31, 2022.

Outlook: Negative

Acuité believes that the outlook of the company will remain 'Negative' over the medium term on account of subdued operating performance and vulnerability of revenues linked to steel prices. Further, the business profile of the company has remained subdued even during Q1FY2024. The rating may be downgraded in case of further deterioration in the operating performance and elongated working capital cycle. The outlook may be revised to 'Stable' in case of improvement in the operating performance including profitability and overall liquidity position.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	379.68	414.24
PAT	Rs. Cr.	2.19	11.72
PAT Margin	(%)	0.58	2.83
Total Debt/Tangible Net Worth	Times	0.21	0.04
PBDIT/Interest	Times	2.29	4.19

Status of non-cooperation with previous CRA (if applicable)

Not Applicable.

Any Other Information

Not Applicable.

Applicable Criteria

• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
• Trading Entitie: https://www.acuite.in/view-rating-criteria-61.htm

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on **www.acuite.in**

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Aug 2022	Letter of Credit	Short Term	35.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	5.00	ACUITE BBB- | Stable (Reaffirmed)
	Secured Overdraft	Long Term	5.00	ACUITE BBB- | Stable (Reaffirmed)
25 May 2021	Proposed Bank Facility	Long Term	45.00	ACUITE BBB- | Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB- | Negative | Reaffirmed | Stable to Negative
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A3 | Reaffirmed
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	55.00	ACUITE A3 | Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.